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SUBJECT: PERNAMBUCO CROWS AFTER WINNING PETROBRAS-PDVSA OIL REFINERY

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1. Summary: The announcement by President Luiz Inacio Lula da Silva and visiting Venezuelan President Hugo Chavez Sept. 29th that their 50-50 venture oil refinery would be located at the port of Suape, some 30 miles south of the Pernambuco state capital of Recife, was celebrated by northeasterners as turning the key to ignite their economic engine. Politicians fought to claim credit for the project, which Pernambucanos attribute more to the historical whim of President Chavez than sound economics.

Two more giant development projects are waiting in the wings, the Trans-Northeast railway and a huge diversion of San Francisco river water via canal to three drought-prone states, the latter project being fought by a Gandhi-like priest on a hunger strike. End summary.

2. From glancing at Pernambuco newspapers last week, one could assume that getting the joint Brazilian-Venezuelan oil refinery was the single most significant event in years; "Confirmation, Commemoration," "It's Ours," "It will change to face of the State," huge headlines announced. State politicians from all parties vied to take credit for getting the Venezuelan President to favor their state over five others. All agreed that despite good infrastructure, a booming port and other economic factors, the key was the sentiment Chavez attached to locating the refinery in the home state of Gen. Josi Ignacio de Abreu e Lima, the Brazilian who fought along side Simon Bolivar. (No doubt the fact that President Lula is from Pernambuco contributed to the decision as well.) Pernambuco politicians planning to compete in next year's elections all recounted how they had talked to Chavez at some point about the connection between Abreu e Lima and Bolivar. The refinery is to be named Abreu e Lima.

3. Pernambuco commentators predict that the US 2.5 billion dollar joint venture between Petrobras and the Venezuelan oil company PDVSA will give their state the critical boost that the Camacari petro-chemical complex gave to the state of Bahia in the 1970s, launching the economic boom there. The number of direct jobs created by the refinery is being estimated around 20,000, but indirect jobs and ripple effect led to claims that 230,000 jobs will be added in the future. The total tax revenues to be generated are estimated at US 970 million dollars with state and local governments eagerly anticipating whatever their share will be. The refinery is not expected to come on line until 2011, when it will refine 200 thousand barrels a day, according to Petrobras figures given to the press.

4. The press also speculated that the next mega-project -- a 4.5 billion real investment in the railroad lines needed to link the interior of the Northeast to the ports of Suape and Fortaleza -- is to be announced this month. The Brazilian government, through the National Economic and Social Development Bank (BNDES) and a Northeastern Development Fund (FDNE) is expected to provide 3.5 billion reales for the railroad construction, with private partners supplying the rest.

5. The final mega-project in the Lula government's plan to change the face of the Northeast, canals to transport water known as the "Transposition" of the San Francisco River, is waiting for date to be announced. Another 4.5 billion reales from the federal government is budgeted to build two major canals -- the North axis and the Eastern axis -- to carry an estimated 26 cubic water feet per second to irrigate the driest parts of Ceara, Rio Grande do Norte and Pernambuco states. But a Catholic bishop from the Bahian town of Barra, Father Luiz Cappio, began a hunger strike Sept. 26 in a chapel on the Pernambuco side of the river in order to convince President Lula to cancel the project. The Franciscan friar has gained national press coverage, with pilgrims and Bahian politicians, including the state governor, flocking to his chapel. The National Conference of Catholic Bishops sent a letter to the President, asking him to postpone starting the canal project until there is more public debate. The priest, who says he will give his life to stop the water transfer, questions the basis of the mega-project, which ignores the water needs of poor communities along the river while investing billions in the construction of canals benefiting large companies. The Gandhi-style protest indicates that the water transfer project is not likely to set off a celebration like the one given the oil refinery news if it were announced.

6. This cable was coordinated with Embassy Brasilia.

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